Homeowner
Protection Office

Service Plan

[HOMEOWNER PROTECTION OFFICE]

2006-2009

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Honourable Rich Coleman
Ministry of Forests and Range
Minister Responsible for Housing
Province of British Columbia

Ken MacLeod, Chairperson

Dear Minister,

It is a pleasure to provide you with the 2006 – 2009 Service Plan for the Homeowner Protection Office (HPO).

The HPO continues to deliver on the mandate of the *Homeowner Protection Act* – to increase consumer protection for buyers of new homes, help bring about improvements in the quality of residential construction and support related research and education. Recently there were more than 4,000 residential builders licensed by the HPO in the province – an all-time high. More than 130,000 homes with home warranty insurance have been constructed by Licensed Residential Builders since 1999. We continue to partner with industry to facilitate relevant research, disseminate research results and develop best practices for improved new home construction.

The HPO's financial assistance programs continue to help prevent foreclosures that otherwise might have occurred as a result of the cost of repairs required to leaking homes constructed in the past. The HPO has now received over 14,000 applications for no-interest repair loans and has approved more than $500 million dollars in financial assistance through the Reconstruction Loan Program and the Province's PST Relief Grant Program.

In our continuous efforts to enable a robust and respected residential construction industry in which consumers have confidence and industry partners have the ability to thrive, we sponsored a consultation process on a discussion paper entitled "Raising the Bar – Enhancing Professionalism in British Columbia's Residential Construction Sector". This paper addressed the challenges that remain in our industry such as the absence of meaningful entry requirements for licensing, the voluntary nature of existing training programs, the abuse of the owner-builder exemption from licensing and warranty insurance and the current limitations on the HPO's ability to perform its gatekeeping function. The HPO looks forward to receiving and implementing the direction from government on Raising the Bar which could also impact the HPO's operations over the period of this service plan.

We remain optimistic for the future of our industry. Housing starts are forecast to remain strong during the service plan period, the HPO's research and education programs continue to be accessed by an increasing number of licensed builders, and eligible homeowners continue to have access to financial assistance. Consumers in the housing industry have never been better protected in British Columbia.

Accountability Statement

The 2006/07 – 2008/09 Homeowner Protection Office Service Plan was prepared under the direction of the HPO Board of Directors in accordance with the Budget Transparency and Accountability Act. The Board is accountable for the contents of the plan, including the selection of performance measures and targets. The plan is consistent with the government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions, and identified risks, as of December 2006, have been considered in preparing the plan. The Board is accountable for ensuring that the HPO achieves its specific objectives identified in the plan and for measuring and reporting actual performance. The performance targets in this plan have been determined based on an assessment of the HPO's operating environment, forecast conditions, risk assessment and past performance.

Sincerely,

K MacLeod

Ken MacLeod
Chairperson

The Homeowner Protection Office (HPO) is a provincial Crown corporation formed in 1998 in response to the need to introduce consumer protection legislation and regulatory improvements within British Columbia's residential construction industry.

The HPO was established under the *Homeowner Protection Act (Act)*. The main purposes of the *Act* are to strengthen consumer protection for buyers of new homes, help bring about improvements in the quality of B.C.'s residential construction and support research and education respecting residential construction.

The HPO, with a staff of 35, is responsible for:

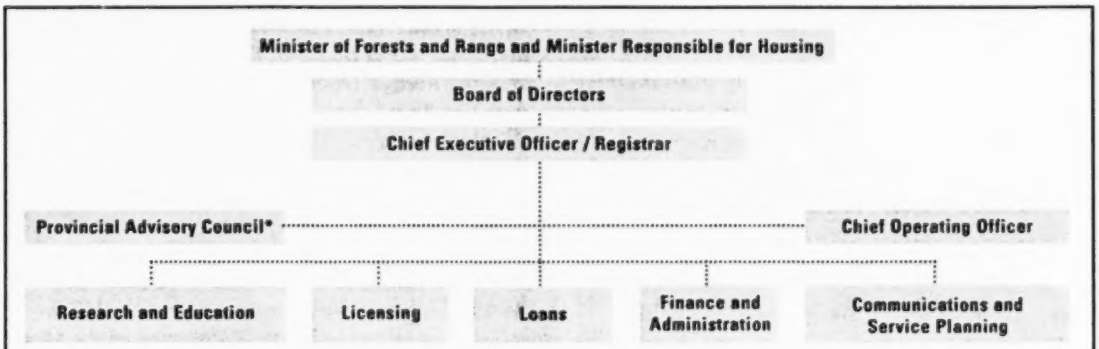
- licensing residential builders and building envelope renovators in B.C.
- monitoring the performance of the third-party home warranty insurance system
- research and education designed to benefit the residential construction industry and consumers, and
- financial assistance to owners of leaky homes in the form of the Reconstruction Loan Program and the PST Relief Grant.

The HPO is based in Vancouver and is responsible for delivering its programs province-wide. Its principal markets are the residential construction industry in which it performs its licensing, research and education functions, and home warranty insurance which is provided by the private sector and monitored by the HPO.

Corporate Governance

The HPO reports to the Minister of Forests and Range and Minister Responsible for Housing and is governed by a seven-member Board of Directors appointed by the Lieutenant Governor in Council. The mandate of the HPO Board is to approve long-term strategies consistent with the shareholder's objectives and monitor the management of the HPO.

The HPO Board has received the Best Practices Guidelines for Governing Boards of Public Sector Organizations. The Board's Governance Committee is reviewing its principles and practices to reflect the guidelines where appropriate by March 31, 2006.



* The Provincial Advisory Council on Homeowner Protection provides advice to the CEO regarding residential construction in B.C., research and education initiatives and consumer information programs.

Board of Director Committees:

- Audit and Finance Committee – assists the Board in fulfilling its fiduciary and oversight responsibilities relating to financial reporting and the audit process.

Board members on this committee include: M. Enser, D. Goedbloed and T. Gioventu.

- Governance Committee – conducts the CEO's performance evaluation and recommends the implementation strategy for the Best Practice Guidelines for governance.

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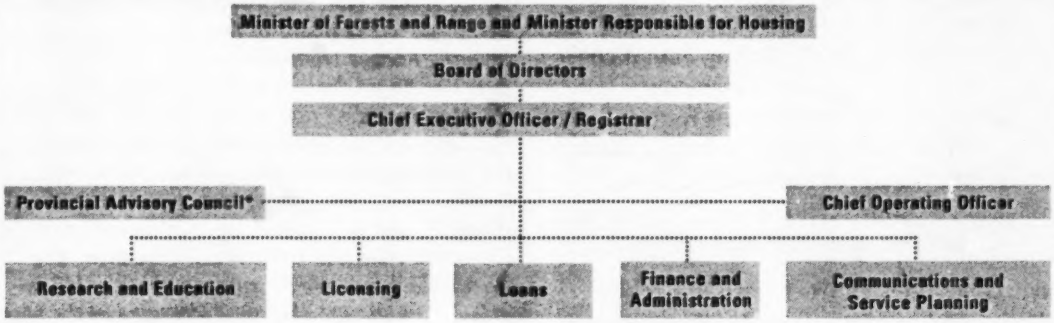

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Department Responsibilities

RESEARCH AND EDUCATION	LICENSING	LOANS	FINANCE AND ADMINISTRATION	COMMUNICATIONS AND SERVICE PLANNING
Building science research Consumer/industry education and training Dissemination of research results and support of establishing "best practices" Provision of input and advice on amendments to the building code	License residential builders and building envelope renovators Maintain registry of licensed builders and building envelope renovators Administer the *Homeowner Protection Act* and regulations as they pertain to residential builder licensing, home warranty insurance and exemptions for residential construction Collect license fees	Delivery of the Reconstruction Loan Program Administration of the PST Relief Grant Program Participation at on-site strata meetings to provide information on financial assistance programs	Financial reporting Human resources Information systems Administration of the HPO Budgetary planning and expenditure control	Issues management, communications planning and media relations Development and implementation of strategies for consumer and industry communications Management of information line, website, events and publications Support for HPO's education mandate Development of Annual Report and Service Plan

Strategic Foundation

The Homeowner Protection Office's strategic foundation is in keeping with the mandate of the *Homeowner Protection Act.*

Our Vision

A professional organization that directly acts to enable a robust and respected residential construction industry in which consumers have confidence and industry partners have the ability to thrive.

Our Mission

To protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.

Our Values

We are guided by our commitment to:

- fairness
- competence
- common ground, and
- usefulness.

Planning Context and Key Strategic Issues

The HPO has identified key factors which may impact its operations and vision.

Raising the Bar

In August 2005, the Minister Responsible for Housing approved the release of the HPO's discussion paper entitled "Raising the Bar– Enhancing Professionalism in B.C.'s Residential Construction Industry". The discussion paper addressed the significant challenges that remain in further professionalizing the residential construction industry including:

- the absence of meaningful entry requirements for Licensed Residential Builders
- the voluntary nature of existing training programs
- black-market building activity which creates unfair competition for licensed builders and erodes consumer protection
- the need to administer legitimate exemptions effectively and fairly while not unduly affecting the ability and right of individuals to build their own homes, and
- the ability of the HPO to perform its gate-keeping mandate effectively.

A consultation process ran from August to the end of October 2005. The results from the consultation period were considerd by the HPO Board of Directors. In November 2005 the Board forwarded their recommendations to the Minister for his consideration.

Depending on the direction the HPO receives from government, the following concepts covered in the discussion paper could impact the operations of the HPO if implemented or not:

- the introduction of minimum qualifications and core competencies for licensees required for obtaining and maintaining a licence
- the creation of different categories of residential builder licences including the registration of owner-builders
- expansion of the HPO's public registry
- establishment of a fee structure for owner-builder exemptions to eliminate the licensed builder subsidization of administration and compliance activities for the owner-builder exemption, as well as the extension of the period of time that must elapse between owner-builder exemptions, and
- the introduction of administrative penalties for violations of the *Homeowner Protection Act.*

Owner-builder Exemption Abuse

The *Homeowner Protection Act* exempts individuals that qualify as owner-builders from the licensing and home warranty insurance requirements. Although the *Act* stipulates that only individuals intending to build a detached dwelling for their own personal use are eligible for the exemption once in any 18-month period, some land owners and unlicensed builders are abusing the system to avoid the licensing and warranty insurance requirements

put in place to protect consumers. A significant portion of these owner-built homes are constructed by black-market builders and quickly end up on the real estate market without home warranty insurance.

Abuse of the owner-builder exemption results in:

- inadequate consumer protection (false owner-builder exemptions mean that new homes are not required to be built by licensed builders and are not required to have home warranty insurance). The ten-year statutory warranty on owner-built homes which makes an owner-builder personally liable for construction defects in the home for a period of 10 years provides no guarantee of a buyer's ability to recover damages.
- unfair competition for Licensed Residential Builders who comply with the legislation and must compete with black-market builders that do not contribute their share of taxation including GST, capital gains and income tax.
- smaller underwriting pools for home warranty insurance providers which can result in higher premiums for coverage, and
- fewer financial resources available for the administration of the consumer protection regulations because licensing fees are not being collected.

Increased housing starts have placed additional pressure on the HPO's compliance staff to monitor and investigate potential abuse of the owner-builder exemption and other potential offences.

Eighty percent of Licensed Residential Builders indicate that they want changes to the owner-builder exemption to address the abuse.

The HPO and the industry believe that changes to the *Act* and regulations are required to bring about a meaningful decrease to this black-market builder activity and increase consumer protection.

The outcome of any government direction received regarding the abuse of the owner-builder exemption as a result of the HPO Board's recommendations on "Raising the Bar" (see the first item in this Planning Context and Key Strategic Issues section), could impact the operations of the HPO over the period of the Service Plan.

Continuation of a Strong Housing Market

The HPO derives its funding revenues primarily from licensing fees. This service plan anticipates the continuation of a strong housing market over the planning period. Housing starts will continue close to current levels with a slight dip in activity in 2006/07 as the market adjusts to anticipated higher interest rates and construction costs. Housing starts are then anticipated to increase continuously in the following years of the planning period. Favourable interest rates enticed many homebuyers into the market, resulting in higher sales of both new and existing homes.

In the unlikely event that the housing market declines over the planning period, the resulting lower level of revenue would restrict the performance of HPO programs.

Skilled Labour Shortage

Increased housing starts as well as the number of major capital projects planned and underway in the province have created increased demand for skilled labour. This increased demand is anticipated to continue past the planning period of this service plan.

The supply of skilled labour is inadequate to meet the demand due to an aging workforce, the slow growth of a young replacement workforce, competition for skilled labour also needed to meet the needs of industrial, commercial and institutional construction sectors, and Canadian immigration policies that are less based on the needs for specific vocations.

Impacts of the shortage can include:

- delays in construction and an inability to meet demand in a timely manner
- increased housing prices as trades in short supply command higher prices for services
- compromised quality of construction that may also affect the bottom line of participating home warranty insurance providers, and
- lower HPO revenues resulting from this impediment on residential construction.

Key Goals

The 2006-2009 Service Plan sets out a strategic direction for the Homeowner Protection Office that is focused on five key goals:

- professionalization of the residential construction sector
- informed and protected consumers
- continued viability of the home warranty insurance system
- to become a strategic centre for building industry research, and
- an aligned, focused and capable organization.

Originating from the Futures Report approved by the Board of Directors in 2004, these goals are consistent with and support the mandate of the HPO as described under the *Homeowner Protection Act*. This strategic direction will enable the HPO to generate greater value through building and maintaining consumer confidence and supporting a thriving residential construction sector in British Columbia.

Alignment with the Provincial Government's Strategic Plan

The goals contained in this Service Plan support the B.C. government's "Five Great Goals for a Golden Decade" which were announced in February 2005. One of the Province's goals is to "create more jobs per capita than anywhere else in Canada." The residential construction sector is a major economic driver in the province, contributing to the province's gross domestic product at a level that is comparable to other major industries such as forestry and the utilities. Strong consumer confidence in the residential construction sector contributes to greater demand for new homes, and thus creates new, higher paying jobs and employment opportunities for British Columbians.

Consumer confidence and a healthy residential construction sector also support other sectors of the provincial economy such as the forest industry by stimulating demand for wood products.

The goals are also consistent with the Ministry Service Plan to develop a long-term strategy to rationalize and modernize the building safety regulatory system. These goals are also aligned with the Housing Department's Service Plan goal for a safe built environment where the social, economic and safety interests of participants are balanced.

Key Changes from the Previous Service Plan

The Service Plan is revisited and revised annually to take into account any changes to the planning context and strategic directions.

Key changes to the 2006-2009 Service Plan include:

- Revised strategies for Goal 1 – Professionalization of the Residential Construction Sector, to reflect next steps following the completion of the "Raising the Bar" consultation process.
- New objectives and strategies for Goal 4 – Become a Strategic Centre for Building Industry Research, to reflect the outcome of the Board and senior staff Task Force on Research and Education.
- Introduction of a new performance measure under Goal 5 – An Aligned, Focused and Capable Organization related to timeliness of decisions on completed homeowner applications for the Reconstruction Loan Program.
- Adjustment of targets for several measures: Described in more detail in Description of Performance Measures section.

[Goal 1] Professionalization of the Residential Construction Sector

Objectives

"Raise the bar" for B.C.'s Licensed Residential Builders by introducing appropriate minimum qualifications and core competencies as a condition of licensing which takes into account the differing needs for home builders and developers.

More effectively address the problem of black-market building activity while continuing to protect the ability and right of owners to build their own homes for their own personal use.

Move to system of administrative penalties to strengthen the HPO's ability to obtain compliance with the *Homeowner Protection Act* and regulations.

Seek appropriate authority to better perform industry gatekeeping duties through the HPO's powers to refuse, suspend and cancel licences while ensuring administrative fairness.

Post more information on the public registry to allow consumers to make a more informed choice of their Licensed Residential Builder, and to identify new homes constructed by owner-builders.

Strategies

- Work collaboratively with industry and consumer stakeholders on implementation measures to "raise the bar" in a way which achieves the desired result of increasing professionalism without disruption of the vast majority of existing professionals who are performing well above any minimum standard.
- Seek legislative and/or regulatory authority where required to help implement key objectives.
- Continue cooperation and information sharing with other organizations when appropriate to address the black-market builder situation.
- Continue to support and where possible strengthen education and training programs offered by industry associations and training organizations.

PERFORMANCE MEASURES	ACTUAL/BASELINE	TARGETS		
		2006/07	2007/08	2008/09
Builder satisfaction with the licensing system	87% very or somewhat satisfied in 2005/06	Not surveyed: surveyed once every two years	90%	Not surveyed: surveyed once every two years
Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption	70% very or somewhat effective in 2005/06	Not surveyed: surveyed once every two years	75%	Not surveyed: surveyed once every two years

[Goal 2] *Informed and Protected Consumers**

Objectives

Increase communications and education initiatives to better inform and protect consumers, particularly in the following areas:

- consumers' understanding of the home warranty insurance product, the home warranty insurance system, and the role and obligations of all participants in this area
- proper maintenance of new homes
- an informed homebuying process, and
- an understanding of homeowner obligations with respect to the protections under the *Homeowner Protection Act*.

Ensure an established standard of information is accessible to 100% of homebuyers and homeowners.

Ensure that homeowners who might have otherwise lost their homes as a result of the cost of building envelope repairs have the option to keep their homes.

Strategies

- Develop and distribute new information products and related education initiatives for consumers.
- Implement a plan to increase homeowner satisfaction levels in the areas of warranty insurance, quality of home construction and the building process.
- Continue to provide no-interest repair loans and PST Relief Grants to eligible owners of water-damaged homes.

PERFORMANCE MEASURES	ACTUAL/BASELINE	TARGETS		
		2006/07	2007/08	2008/09
Homebuyer awareness of consumer protections under the *Homeowner Protection Act*	69% awareness of builder licensing and 52% awareness of warranty insurance in 2004/05	80% awareness of licensing and 60% awareness of home warranty insurance	Not surveyed: surveyed once every two years	90% awareness of licensing and 70% awareness of warranty insurance
Homeowner satisfaction with home warranty insurance	80% satisfaction in 2004/05	85% satisfaction	Not surveyed: surveyed once every two years	90% satisfaction
Homeowner satisfaction with quality of home construction	91% satisfaction in 2004/05	95% satisfaction	Not surveyed: surveyed once every two years	95% satisfaction
Homeowner satisfaction with the building process	83% very satisfied or somewhat satisfied in 2004/05	88% satisfaction	Not surveyed: surveyed once every two years	90% satisfaction
Recovery of home values following building envelope renovation	91% of repaired homes recovered the value of the cost of repairs in the assessed value of their homes in 2004/05	95%	Greater than 95%	Greater than 95%
Reconstruction Loan default rate	1.8% in 2004/05	1.5% or less	1.5% or less	1.5% or less

* Consumers who have protection under the *Homeowner Protection Act* include:

- buyers of new homes
- subsequent buyers of newly-built homes with home warranty insurance still remaining
- subsequent owners of owner-built homes which are still within 10 years of first occupancy
- owners of homes with building envelope renovation warranty insurance, and
- subsequent owners of homes that have building envelope renovation warranty insurance still remaining.

[Goal 3] Continued Viability of the Home Warranty Insurance System

Objectives

Ensure the availability, affordability and effectiveness of home warranty insurance for consumers and the industry.

Ensure home warranty insurance is in place for all new homes where coverage is mandated under the *Homeowner Protection Act*.

Strategies

- Preserve the uninterrupted availability of home warranty insurance in British Columbia by consulting with warranty providers and others in the industry to ensure that home warranty insurance continues to be a viable business line for the industry and continues to be made available at an appropriate cost.
- Work with home warranty providers to ensure that claims made under home warranty insurance are evaluated in a fair manner, with reasonable dispatch and according to objective standards.
- Work with home warranty insurance providers and brokers, the Insurance Council of B.C. and the Financial Institutions Commission to ensure the continued integrity of the home warranty insurance system.
- In collaboration with the Insurance Council of B.C. and the Financial Institutions Commission, monitor the performance of the home warranty insurance system and, if necessary, seek additional authority to regulate areas related to improving performance.

PERFORMANCE MEASURES	ACTUAL/BASELINE	TARGETS		
		2006/07	2007/08	2008/09
Percentage of homes built under the *Homeowner Protection Act* with warranty insurance claims is within industry norms	4% or less homes with claims in 2004/05	3% or less homes with claims	3% or less homes with claims	3% or less homes with claims
Builder rating of their overall relationship with their warranty provider	84% rated as good or excellent in 2005/06	Not surveyed: surveyed once every two years	92% rated as good or excellent	Not surveyed: surveyed once every two years
Homeowner satisfaction with home warranty insurance	80% satisfaction in 2004/05	85% satisfaction	Not surveyed: surveyed once every two years	90% satisfaction

[Goal 4] Become a Strategic Centre for Building Industry Research

Objectives

Support the conduct and dissemination of research relative to the continuous improvement in the quality of residential construction in B.C.

Facilitate the use of this research in the development and application of best practices, and in the development of standards.

Strategies

- Facilitate access by the industry and consumers, in real, electronic or virtual form, to all available research and knowledge relevant to the performance and durability of new homes and building envelope-renovated homes in B.C.
- Assemble, maintain and continually develop a current knowledge of the state of consumer confidence in the housing industry.
- Work with industry and consumer groups to identify gaps in the available knowledge and to facilitate research to fill gaps that are important to the HPO's key focus.
- Ensure knowledge is applied expeditiously to the development of best practices in residential construction and to the building code development process.
- Facilitate the application of best practices through education and training.
- Ensure owners of new homes are aware of their responsibilities.

PERFORMANCE MEASURES	ACTUAL/BASELINE	TARGETS		
		2006/07	2007/08	2008/09
Research results and best practices disseminated through symposiums, seminars or workshops	HPO contributed to Innovation in Building Science Symposium in May/04 and 21 Building Smart seminars throughout B.C. in 2004/05	One major symposium or publication and over 20 educational sessions delivered	One major symposium or publication and over 20 educational sessions delivered	One major symposium or publication and over 20 educational sessions delivered
Research results incorporated into building standards and best practices	Involvement in federal and provincial processes to update the current building code, and worked with industry to develop best practices and training courses	Continued involvement in national and provincial building code processes, and to work with industry to develop best practices and training courses	Continued involvement in national and provincial building code processes, and to work with industry to develop best practices and training courses	Continued involvement in national and provincial building code processes, and to work with industry to develop best practices and training courses
Resources leveraged by the HPO through other funding partners	Contribution by partners represented 54% total project funding in 2004/05	At least twice the amount invested by HPO leveraged through partnerships	At least twice the amount invested by HPO leveraged through partnerships	At least twice amount invested by HPO leveraged through partnerships

[Goal 5] An Aligned, Focused and Capable Organization

Objectives

Ensure that the Homeowner Protection Office remains lean, agile, rigorous and resourced.

Strategies

- Implementation of an improved employee performance evaluation and planning system.
- Carry out key improvements to the information technology infrastructure that directly support the mandate of the HPO.

PERFORMANCE MEASURES	ACTUAL/BASELINE	TARGETS		
		2006/07	2007/08	2008/09
Timeliness of licensing decisions on completed applications	3.1 business days in 2004/05	3 business days or less	3 business days or less	3 business days or less
Timeliness of decisions on completed homeowner applications for the Reconstruction Loan Program	New measure for 2006/07	Establish baseline and set targets	Meet target	Meet target

Description of Performance Measures

Survey of Licensed Residential Builders

The biennial survey of Licensed Residential Builders is the data source for several key performance measures. Carried out by a market research firm, the builder survey is a self-administered questionnaire sent to all Licensed Residential Builders in B.C. The response of 968 builders in the 2003/2004 survey provides a confidence level of 95% with the maximum margin of error of +/- 3.2%. The response of 1,094 builders in the 2005/2006 survey provides a confidence level of 95% with a maximum margin of error of +/- 3.0%.

Consumer Survey

The biennial consumer survey is the data source for several key performance measures. Carried out by a market research firm, the survey includes two separate groups of consumers, specifically 1) homeowners with warranty insurance under the *Homeowner Protection Act* on their home, and 2) prospective new home buyers. For the 2004/2005 consumer survey a total of 601 telephone interviews were conducted with owners of homes covered by warranty insurance. At the 95% confidence level, the maximum margin of error on the total homeowner sample is +/- 4.0%. In addition, a total of 300 telephone interviews were conducted with B.C. residents who were considering buying newer homes (i.e. purchase a home with warranty insurance) over the next year. At the 95% confidence level, the maximum margin of error on the total prospective homebuyer sample is +/- 5.7%.

The 2002/2003 consumer survey followed the same methodology. A total of 602 telephone interviews were conducted with owners of homes covered by warranty insurance under the *Homeowner Protection Act*. At the 95% confidence level, the maximum margin of error on the total homeowner sample is +/- 4.0%. In addition, a total of 363 telephone interviews were conducted with B.C. residents who were considering buying newer homes (i.e. purchasing a home with warranty insurance) over the next year. At the 95% confidence level, the maximum margin of error on the total prospective homebuyer sample is +/- 5.1%.

Goal 1 — *Professionalization of the Residential Construction Sector*

Builder satisfaction with licensing system — This measure tracks Licensed Residential Builder satisfaction with the HPO licensing system. Builder satisfaction is tracked through a biennial survey of all licensed builders. Subcomponents of satisfaction being tracked include: fairness of the rules/requirements, application and renewal process, and timeliness of licensing decisions. The first biennial builder survey was carried out in 2003/2004.

Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption — The HPO carries out compliance activities to ensure that all new homes in B.C. are built in keeping with the licensing, warranty insurance and owner-builder exemption provisions of the *Homeowner Protection Act*. Licensed builders rate the effectiveness of the HPO's compliance efforts through a biennial survey that was first carried out in 2003/2004. The 2007/08 target in this Service Plan has been lowered to 75% from 80% in the previous Service Plan to reflect a more achievable yet realistic level of improvement.

Homebuyer awareness of consumer protections — This measure tracks new homebuyer awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. Data for this measure is collected through a biennial survey of prospective buyers of new homes. The first survey was carried out in 2002/2003. The 2006/2007 target has been adjusted to allow a more reasonable time frame in which to attain the goal of 90% awareness of licensing and 70% awareness of warranty insurance. Compared to last year's service plan, these targets have been lowered by 10 percent in 2006/2007 to reflect a more realistic level of improvement during the planning period.

Homeowner satisfaction with warranty insurance — This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new home. Data for this measure is obtained through a biennial survey of owners of new homes with warranty insurance. The first survey was carried out in 2002/2003. The 2006/2007 target has been adjusted to allow a more reasonable time frame in which to attain the goal of 90% homeowner satisfaction with home warranty insurance. Compared to last year's service plan, this target has been lowered by 5 percent in 2006/2007 to reflect a more realistic level of improvement during the planning period.

Homeowner satisfaction with quality of home construction — This measure tracks homeowner satisfaction with the quality of the construction of their home. Data for this measure is obtained through a biennial survey of owners of new homes with warranty insurance. The first survey was carried out in 2002/2003.

Homeowner satisfaction with the building process — This measure tracks homeowner satisfaction with the building process for their new home. Data for this measure is obtained through a biennial survey of owners of new homes with warranty insurance. Data for this measure was first collected in the 2004/2005 homeowner survey.

Recovery of homes' values following building envelope renovation — This measure, tracked annually, monitors the improvement of assessed values of homes with repair loans following the completion of building envelope renovations. The measure is calculated as the percentage of homes in the HPO's Reconstruction Loan Program that have recovered assessed values equal to the cost of repairs in the most recent assessed values of the homes. The annual targets for this performance measure have been increased in this Service Plan to reflect anticipated continued strong housing demand and higher resale prices for building envelope renovated homes.

Reconstruction loan default rate — This measure, tracked on an annual basis, tracks the effectiveness of the Homeowner's Reconstruction Loan Program in helping to ensure that homeowners do not have to lose their homes as a result of building envelope renovation costs. Loans are issued to eligible homeowners and housing co-operatives. The data used for this measure is the number of loan defaults among homeowners with reconstruction loans, and is benchmarked against residential mortgage default rates in B.C. The 2006/07 target has been changed in this Service Plan to 1.5% from the previous target of 1.0% in the 2005-2008 Service Plan to reflect a more realistic level of expected loan default rates.

Goal 3 *Continued Viability of the Home Warranty Insurance System*

Homes with warranty insurance claims — This measure is an important indicator of the quality of residential construction in B.C. in terms of the number of claims made by homeowners for repairs under home warranty insurance. The number of claims is compared to the total number of homes enrolled during the specific period. In 2002/2003 and 2004/2005 proxy data from the biennial homeowner survey was used in lieu of data from warranty providers. It is anticipated that data from warranty providers will be available to report on this performance measure in the 2005/2006 Annual Report.

Builder rating of their overall relationship with their warranty provider — This measure tracks the licensed builders' rating of their overall relationship with their warranty provider. Builder ratings are tracked through a biennial survey of all licensed builders. Subcomponents of this measure being tracked include: ease of the application process for coverage, cost of the warranty insurance and handling of complaints or claims from consumers. The first builder survey was carried out in 2003/2004.

Homeowner satisfaction with warranty insurance — Same measure as described under Goal 2: Informed and Protected Consumers. This measure has been repeated under Goal 3 as homeowner satisfaction is also a valid indicator of the viability of the home warranty insurance system from the perspective of consumers.

Goal 4 *Become a Strategic Centre for Building Industry Research*

Research results disseminated — Recognizing the critical role of ensuring that research results and best practices are disseminated to industry and consumers, this measure focuses on the HPO's participation in major research symposia or publications, and the delivery of educational sessions. Previously, targets for this measure have been for two year periods. In this Service Plan new targets have been set on an annual basis.

Research results incorporated into building standards and best practices — This measure looks at the effectiveness of the HPO in ensuring that results of research projects are incorporated into standards, codes and best practices. The performance measure tracks the HPO's participation and input into the national and provincial code development process, and involvement in the development of best practice guides and training courses.

Leveraging of additional research and education funding — This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners. The target is to leverage at least twice the amount invested by the HPO by other partners for active research and education projects.

Goal 5 *An Aligned, Focused and Capable Organization*

Timeliness of licensing decisions — This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions on completed applications for new licences. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders. This performance measure is benchmarked against other jurisdictions that register or license residential builders.

Timeliness of Reconstruction Loan Program application decisions — This is a new measure introduced into the 2006-2009 Service Plan. It is a measure of the HPO's responsiveness in making decisions on completed homeowner loan applications. Baseline data and future targets will be established in 2006/2007.

Financial Outlook

A forecast of revenues and expenditures for 2005/2006 through 2008/2009 is shown in Table 1 (page 19). The forecast for residential builder licensing and construction activity can be found in Table 2 (page 19) and a financial summary of the Reconstruction Loan Program exists in Table 3 (page 20). The financial plan is driven by two main guiding principles, which are as follows:

1. ***The HPO is self-sustaining from its own revenues.***

Key assumptions for the financial plan, specifically the forecast of builder license fees and new construction activity as shown in Table 2, determine the funding available to operate HPO's programs. Over the forecast period, it is projected that demand for new housing will remain strong. A strong housing market provides incentives for builders to become licensed by the HPO, renew their existing licences, and participate in meeting the demands of the housing market. This construction activity will generate a steady stream of revenues which will be accompanied by a demand for more services in key strategic areas.

2. ***The Homeowner's Reconstruction Loan Program must provide financial assistance for all eligible homeowners.***

Financial assistance in the form of no-interest loans is provided to eligible homeowners. The Reconstruction Loan Program may experience surpluses and deficits on a year-over-year basis. Fluctuations occur as a result of many factors affecting the demand for the program and the availability of funds required for the reconstruction loans. These factors are detailed below.

- **Demand for Financial Assistance**

Demand is driven by owners of leaky homes who are eligible for the program. The program provides no-interest repair loans and prevents the possibility of their losing their homes.

The demand for financial assistance continues as more eligible homeowners with leaky homes repair their units. The value of the financial assistance has been icreasing as construction costs increase. This has resulted in an increase in expenditures.

The continuation of the strong housing market has made it easier for homeowners to sell their repaired homes and repay their no-interest loans. This condition results in higher loan discount recoveries and increased HPO revenues, and reduces the total interest subsidy paid by the HPO on behalf of eligible homeowners.

- **Supply of Funds**

The no-interest loan program is funded by a $750 reconstruction levy which is collected from Licensed Residential Builders on the construction of each new multi-unit home constructed in the coastal climate zone.

Surpluses and deficits may occur due to fluctuations in the flow of reconstruction levies collected and the demand for financial assistance. Surpluses are used in the following years to meet increasing demands for financial assistance and to repay any bridge financing under the Reconstruction Loan Program. The Province of British Columbia loans the HPO bridge financing which is needed to fund the gap between the incoming reconstruction levies and the outflow of funds in the form of financial assistance for the loans program. It is anticipated that the HPO will repay the bridge financing loans provided by the Province over time with incoming reconstruction levies collected in the ensuing years.

- **Cessation of Federal Government Participation**
  The Reconstruction Loan Program expenditures were previously shared equally by the provincial and federal governments until October 2003, when the federal government's set contribution limit of $27.7 million was reached. The HPO relies exclusively on the Province of British Columbia to provide bridge financing for this program until the $750 per unit levy collected repays the HPO's loan from the Province. All eligible homeowners continue to have access to the Reconstruction Loan Program.

Cost-Effective Partnerships

A joint service delivery model involving other partners continues to minimize the HPO's program delivery costs. The licensing and home warranty insurance program is delivered in partnership with private-sector insurance companies approved by the Financial Institutions Commission to provide home warranty insurance in British Columbia.

Financial institutions continue to play a major role in the Reconstruction Loan Program by providing principal loan amounts to enable homeowners to finance repairs to their leaky homes. When a financial institution provides the principal on a loan, the HPO pays the interest on the loan to the financial institution on behalf of the homeowner.

The HPO's research and education programs continue to be funded by builder license fees. To maximize available funding for ongoing research and education projects, the HPO works with key industry groups and other levels of government to lever and pool additional funding.

Risk and Sensitivities

The implementation of the Futures Report and legislative changes may result in changes in program delivery and budget allocations.

Interest rates and the economy continue to be major risks and sensitivities for the HPO. A sharp rise in interest rates or a downturn in the economy and the housing market may have the following effects:

- reduced revenues from builder licensing fees as a result of lower housing starts and consequently a decrease in new and renewed license applications
- a decrease in the HPO's loan discount recoveries as homeowners experience difficulty in disposing of their repaired units due to a weaker housing market
- an increased interest subsidy and interest expense in the Reconstruction Loan Program, and
- an extension of the time horizon for the HPO to repay the loan from the Province arising from bridge financing provided to fund shortfalls in the Reconstruction Loan Program.

Key Assumptions

The HPO makes several key assumptions in preparation of its financial forecasts and budgets. An average annual bank prime interest rate of 4.70% to 5.50% and an average annual cost of a short-term borrowing interest rate of 3.23% to 3.85% have been projected along with residential builder licensing and construction activity, which are shown in Table 2. These key assumptions have been used in preparation of revenues and expenditure forecasts and budgets.

Table 1: Homeowner Protection Office Budget and Forecast

	2004/2005 Actual (000's)	2005/2006 Forecast (000's)	2006/2007 Budget (000's)	2007/2008 Forecast (000's)	2008/2009 Forecast (000's)
REVENUE					
Builder license fees	$ 3,051	$ 3,025	$ 2,650	$ 2,780	$ 2,796
Reconstruction fee	12,675	13,875	12,750	12,600	12,975
Provincial contribution for PST Relief Grant program	3,396	4,800	4,800	4,800	4,800
Federal contribution for loan program	0	0	0	0	0
Interest and other	177	259	518	583	638
Loan discount recoveries*	5,641	8,081	8,490	8,662	8,845
Total Revenue	$24,940	$30,040	$29,208	$29,425	$30,054
EXPENDITURES					
Reconstruction loan grants	$ 8,208	$10,133	$10,203	$ 8,598	$ 8,997
PST Relief Grants	3,271	4,675	4,675	4,675	4,675
Interest subsidy for no-interest loans	4,370	5,553	7,981	9,853	10,003
Salaries and wages	2,224	2,374	2,694	2,694	2,694
Loss provision on no-interest loans	295	0	0	0	0
Operating expense	1,671	1,888	2,036	2,063	2,287
Interest expense	672	844	997	1,177	1,041
Research studies and education	153	171	175	175	200
Total Expenditures	$20,864	$25,638	$28,761	$29,235	$29,897
Surplus – All Programs	$ 4,076	$ 4,402	$ 447	$ 190	$ 157
Surplus – Excluding Loan and PST Relief Grant Programs	$ 91	$ 0	$ 0	$ 0	$ 0

*The non-cash accounting entry required to amortize HPO funded loans appearing on the balance sheet of the HPO.

Table 2: Residential Builder Licensing and Construction Activity Forecast

The above budget and forecast is based on the following forecast for licensing and construction activity for both new home construction and building envelope renovations in British Columbia.

	2004/2005 Actual	2005/2006 Forecast	2006/2007 Budget	2007/2008 Forecast	2008/2009 Forecast
New residential builder licences	993	1,100	800	900	900
Residential builder licence renewals	3,069	3,100	2,900	3,000	3,000
New homes constructed – subject to $25 fee	31,191	31,000	28,800	29,600	30,250
New homes constructed – subject to $750 levy	16,797	18,500	17,000	16,800	17,300

Table 3: Reconstruction Loan Program Budget and Forecast

($ Millions)

	04/05 Actual	05/06 Forecast	06/07 Budget	07/08 Forecast	08/09 Forecast
Total revenue	$ 18.4	$22.2	$ 21.7	$ 21.8	$ 22.5
Total expenditure	($ 14.5)	($ 17.8)	($ 21.3)	($ 21.6)	($ 22.3)
Surplus	$ 3.9	$ 4.4	$ 0.4	$ 0.2	$ 0.2
Total loans outstanding	$181.5	$197.9	$225.5	$248.2	$ 252.1
Due to Province	$ 28.4	$ 30.9	$ 31.4	$ 30.4	$ 25.1

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